



PUBLIC EMPLOYEE RETIREMENT SYSTEM OF IDAHO  
607 North 8th Street  
BOISE, IDAHO 83702

MINUTES  
OF  
MEETING OF RETIREMENT BOARD

The Board of the Public Employee Retirement System of Idaho met at the PERSI Administration Building, 607 North Eighth Street in Boise, Idaho at 8:30 a.m., July 22, 2008. The following members were present:

Chairman Jody B. Olson  
Cliff Hayes  
Bill Deal  
Jeff Cilek

J. Kirk Sullivan was absent and excused. Executive Director Alan H. Winkle, Deputy Director Don Drum, Chief Investment Officer Robert Maynard, Investment Officer Richelle Sugiyama, Deputy Attorney General Joanna Guilfooy, Financial Officer James Monroe, and Management Assistant Cheri Campbell were also in attendance. Betsy Griffith handled the electronic projection of materials and documents discussed in the meeting. Other persons attending portions of the meeting were:

Robert Schmidt	Milliman
Robin Nettinga	IEA
Jim Shackelford	IEA
Brent Nye	Boise School District
Bill Palumbo	MPIA
Jim Coleman	Retired Teachers
Charlie Brown	Retired Educators
Mike Boren	Clearwater
Phil Bartlett	Clearwater
Larry Johnson	EFIB
John Harrington	Acadian Asset Mngmt
Steven Olson	Attorney Generals Office
Mary Hobson	EFL Associates
Patrice Perow	PERSI

Judy Aitken	PERSI
Diane Kaiser	PERSI
Debbie Buck	PERSI
Cecile McMonigle	PERSI
Rose Marie Sawicki	PERSI
Bob Storer	
Bill Raver	

## MINUTES

Approval of the Minutes: By motion duly made by Trustee Cilek and seconded by Trustee Deal, the Board unanimously approved the minutes of both the May 27, 2008 and June 18, 2008 meetings as presented.

## PORTFOLIO

Monthly/Year-End Investment Report: Mr. Maynard reviewed the month to date Investment Report dated July 21, 2008, an update to the July 16, 2008 version previously provided to the Board. The first couple of weeks of the new fiscal year has continued, in general, the volatile global capital markets that saw a large decline beginning in mid-May, and the collapse in June. The total fund for the month (and new fiscal year) is down -1.1%, at \$10.81 billion.

The fund continues to beat the strategic benchmark, outperforming the 55% US equity (Russell 3000), 15% international equity (EAFE), and 30% investment grade fixed income (Lehman Aggregate) benchmark by 37 basis points for the first couple of weeks. Of some interest is that Brandes has come roaring out of the gate for the first time in some while, actually having the only positive returns of any global equity manager (+1.5%), swimming against the general global market decline of -2.4%. Also, Tukman and Peregrine, after a miserable previous fiscal year, have rebounded, indicating a change in some fundamental market dynamics. But, three weeks does not make any trend.

He then reviewed the FY08 year end report. This is the first year in 6 years that PERSI has finished negative. This trend is expected every 1 out of 6 years. It was a terrible June that turned a turbulent year from slightly positive to significantly negative. With world stock markets down -8% for the month, and down over 10% for the fiscal year, the total fund ended FY 2008 down -5.3% for June, and -4.2% for the fiscal year. The fund ended up the year at \$10.9 billion, down \$550 million over the fiscal year (\$490 million from investments, and \$60 million in net payouts).

It could have been worse in that PERSI once again substantially outperformed its policy benchmark (55% Russell 3000, 15% EAFE, and 30% Lehman Aggregate) by 2.15%. Strategic biases added +3.8% to total fund returns, led by emerging markets (+1.1%), private equity (+1.0%), TIPS (+0.7%) and global equities (+0.5%). PERSI's US equity substantially outperformed the Russell 3000 (-7.6% to -12.7%), international equity also beat the MSCI EAFE index by over 5% (-5.0% to -10.3%), and PERSI's fixed income handily outperformed the Lehman Aggregate (9.7% to 7.1%). For the first time

in over a decade, only PERSI's global managers collectively underperformed, with a loss of -13.6% compared to the MSCI World index return of -10.3%.

It could have been better in that the overall "value" leanings of PERSI's active public equity managers collectively lost 1.6% for the total fund over the course of the fiscal year. This collective lagging effort was "led", for the first time in over a decade, by collective underperformance by global equity managers (losing -0.7% for the total fund by underperformance of their benchmarks), and followed by US only equity managers (-0.4%) and emerging market managers (-0.2%). The stars of the year were private equity, Barings, and Fortis. The greatest suffering was experienced by Donald Smith, Brandes, Bernstein, and Western.

Mr. Maynard then reviewed several graphs showing the investment history of PERSI and the hurdle vs. the actual PERSI returns. When PERSI moved to its strategic policy of investing (1992) and stuck with it, returns increased considerably. As of July 2008 PERSI was at 54% of the hurdle. However, the 10 year average shows PERSI at 91% of hurdle. The investment strategies that PERSI has been using for several years is a long term strategy and is working. There is no need to change strategies to fit the current market.

Staff Advisor Position: Mr. Maynard referred the Trustees to the proposal presented at the May meeting to add contracted staff investment advisors to the program. He proposed hiring two outside advisors to assist staff in overseeing the portfolio. These positions would report to the staff rather than the Board. Robert Storer and William Raver were introduced to the Board and provided a brief summary of their related background in this area.

Trustee Hayes asked how the impact of these positions on the fund would be measured. Mr. Maynard responded that the positions would be more preventative, to make sure we are kept up to date with all managers and issues. The positions will have no decision making authority. They will review and advise only.

Trustee Deal moved and Trustee Cilek seconded the motion to accept the staff recommendation to hire two independent contractors as Portfolio Staff Advisors. The Chairman is authorized to execute said contract upon finalization. Motion passes unanimously.

Investment Manager Comments: Mike Boren, with Clearwater Consulting, said the primary concern is the performance of the Fed. The market has priced in a rate hike, but they think it's unlikely; they do not anticipate any more rate changes in the near future. Believes the economy will stay stable for a while as long as the government keeps bailing out financial companies.

Phil Bartlett with Clearwater thinks the bond market will remain in turmoil for the next 2-3 months.

Bill Palumbo with MPIA said the preoccupation on oil will continue to apply pressure to the global economy. Oil prices will determine the market and is threatening a global economic recession. The SEC move to prohibit

naked short sales has initiated the beginning of the unwinding of paired trades in Hedge funds. This unwinding has been very healthy for the U.S. stock market.

Bill Raver said the Fannie Mae and Freddie Mac restructure is about 2/3 of the way through. Until the bond settles we won't see the market settle. He is concerned about the banking sector, foreign banks included.

Bob Storer said that corporate America ex-financials, has the strongest balance sheets he has seen in a long time and feels that these are the best values moving forward; he is comforted by how well American corporations are doing globally.

John Harrington with Acadian Asset Management, said they continue to be bullish in the short-term regarding the US market due to credit and housing crisis. He believes this will continue for 3-9 months. Emerging markets are not seeing the returns they have in the past; not seeing double digit returns.

#### DIRECTOR UPDATES

Actuarial Assumption Changes: Director Winkle reviewed the summary of recommended changes and effects on the fund which was distributed to the Board previously. Robert Schmidt from Milliman was present to answer Trustee questions. Trustee Deal moved to accept the demographic changes only and revisit the economic changes again in two years. Trustee Hayes seconded and the motion passed unanimously.

Executive Director's Status Report: Director Winkle reviewed his status report previously provided to the Trustees. He provided an update on the Calvert Fund, FRF Funding, the status of the IRS determination letter for the Choice 401(k) Plan and the transfer of sick leave from BSU to CWI. Mr. Winkle updated the Trustee's on the Feasibility Study for the 820 Washington property. With the Trustees approval he will continue meeting with involved parties and expand the feasibility study.

#### Appeal of Director's Decision – Whitmore:

Mr. James McKay requested an appeal of Director Winkle's decision regarding changes he was unable to make to his contingent annuitant after remarrying. Mr. McKay called prior to his remarriage and was told he would have to file the papers within one year and have a one year waiting period. He did not file until after the one year deadline and claims he was told he had to wait a year before he could file.

The staff recommended that the appeal be denied. Deputy Attorney General Joanna Guilfooy stated that to do otherwise would violate Idaho law. Trustee Deal made a motion to concur with staff recommendation and uphold the decision of Director Winkle. Trustee Cilek seconded the motion which passed unanimously. Trustee Cilek recommended that staff consider revising processes

to mail a confirmation letter after speaking to a member regarding a time sensitive matter.

Deputy Director's Status Update: Deputy Director Don Drum reviewed the status report for the PERSI business operations. He reported that he had visited 25 employers over the past two months in Eastern and Northern Idaho. All feedback was positive and all employers he visited are happy with the service they receive and how easy it is to get questions answered.

The Trustees were provided with copies of the Project Work Plan and Agreement between PERSI and L.R. Wechsler Ltd. to provide an assessment of the current systems and staffing in IT. They should be finished and have a completed report by January or February 2009.

## LEGAL

2009 Legislative Ideas: The Trustees had previous been provided with proposed legislative and rule changes for 2009. Deputy Attorney General Joanna Guilfooy reminded the Board that action was needed on the temporary rules delaying contribution rates over the past few years. Trustee Hayes moved to accept staff recommendations and adopt the temporary rules as pending. Trustee Deal seconded and the motion passed unanimously.

Trustee Hayes also moved to accept staff recommendations on proposed rules for the 2009 Legislative session. Trustee Deal seconded and the motion passed with a unanimous vote.

Chairman Olson discussed the possibility of a change to the COLA statute that would allow the Board to award a COLA in circumstances beyond what the statute now allows.

## FISCAL

Fiscal Update: Financial Officer Jim Monroe reviewed the report dated July 16, 2008 that was previously distributed to the members. He reported that CEC merit increases went into effect for staff on July 1, 2008.

Expense Reports: Mr. Monroe reviewed the Administrative, and Portfolio Budget reports for the fiscal year through June that were previously provided to the members. He reported that in total the expenses were within budget for the year. He also reviewed the quarterly and year-end Travel Expenses. Travel expenses were up 12% over previous year. He attributes this to both increased travel costs and more staff traveling. Also, work on the annual audit is underway.

FY 2010 Draft Budget Proposal: Mr. Monroe briefly reviewed the draft FY 2010 budget proposal which includes IT system updates, two new positions and minor restructuring of the Fiscal Department. A final proposal will be presented at the August meeting.

### FUTURE BOARD MEETINGS

Chairman Olson asked the Trustees to consider having the September meeting in Boise due to travel conflicts. Trustee Deal moved to hold this meeting in Boise at the PERSI office, Trustee Hayes seconded and the motion passed unanimously.

### OTHER BUSINESS

Chairman Olson congratulated Trustee Deal for being reappointed to the PERSI Board by the Governor. Trustee Deal has accepted the appointment for another term.

Chairman Olson recognized Jim Shackleford with IEA, and congratulated him on his upcoming retirement. He noted that Mr. Shackleford will be missed and he has been a great resource for PERSI. Mr. Shackleford thanked PERSI for providing great service and expressed his best wishes to PERSI and the Board members.

### EXECUTIVE SESSION

Citing Idaho Code §67-2345(a) and §67-2345(b) which authorizes an Executive Session to discuss personnel matters, and §67-2345(1) for legal counsel by motion duly made by Trustee Deal and seconded by Trustee Cilek and approved unanimously, the Board convened in Executive Session at 10:30 a.m. They reconvened in regular session at 12:10 p.m. During the session, they discussed the salary increase for Director Winkle approved at last months meeting. Trustee Cilek moved to accept the suggestion of the Governor's Office and change the previous decision from 5% to 3% effective June 15, 2008. Trustee Hayes seconded and the motion passes unanimously.

During the Executive Session, Mary Hobson, EFL Associates, did an initial review of applicants for the Executive Director position with the Trustees. Ms. Hobson will invite the candidates for an initial interview with the Board in September.

No decisions were made on legal matters during the Executive Session.

Adjournment: There being no further business to come before the Board, meeting adjourned at 12:20 p.m.

Alan H. Winkle  
Executive Director

Jody B. Olson  
Chairman